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The U.S. Government's Global Hunger & Food Security Initiative



## LAO PEOPLE'S DEMOCRATIC REPUBLIC RATE Country Summary

This document presents the findings of the Regional Agricultural Trade Environment (RATE) assessment conducted in the ASEAN region in 2012 by the Maximizing Agricultural Revenue through Knowledge, Enterprise Development, and Trade (MARKET) Project.



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# LAO PEOPLE'S DEMOCRATIC REPUBLIC

## RATE Country Summary

USAID Maximizing Agricultural Revenue through Knowledge, Enterprise  
Development and Trade (MARKET) Project

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*On the cover:* On a farm near Luang Prabang  
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## RATE COUNTRY SUMMARY – LAO PDR

This Country Summary sets forth findings from the Regional Agricultural Trade (RATE) assessment conducted in Lao PDR in July 2012. In addition to desk research, assessors conducted a series of interviews pertaining to the country's agriculture sector, including with national and local government officials, producers associations, owners of small, medium, and large agriculture enterprises, trade service-providers, market workers, women's business groups, nongovernment organizations (NGOs), foreign investors, research institutes, international donors, the banking and lending community, and others. Interviews and observations took place in and near Vientiane and in Luang Prabang and Champassak Provinces. A workshop in October 2012 sought input from stakeholders about preliminary findings. In all, the team consulted more than 75 agriculture and trade stakeholders in Laos.

### What is RATE?

The Regional Agricultural Trade Environment (RATE) assessment is a tool designed to examine the agricultural trade enabling environments of countries in a particular region, with the objective of identifying a range of legal and institutional reforms that will help the region, and the individual countries, become more efficient in their approach to trade.

In recent years, the international community has committed to a variety of multicountry initiatives that emphasize the collection of benchmark information. Such benchmarks allow participating countries to compare their economic and business environments to others. The accepted use of such benchmarks helps countries identify relative areas of strength and weakness and to track evolution in those rankings over time. Examples include the World Economic Forum's Global Competitiveness reports, the International Finance Corporation's Doing Business reports, and the United States Agency for International Development's (USAID) BizCLIR (Business Climate Legal and Institutional Reform) and AgCLIR (Agribusiness Climate Legal and Institutional Reform) reports.

Building on such initiatives—USAID's BizCLIR and AgCLIR, in particular—the ASEAN RATE inquiry has been conducted for Member States of the Association of Southeast Asian Nations (ASEAN) under the Maximizing Agricultural Revenue through Knowledge, Enterprise Development, and Trade (MARKET) project funded by USAID. RATE builds a knowledge base for addressing the priorities of USAID's Feed the Future initiative, which aims to increase investment in agriculture and rural development as both a lever for combating food insecurity and an engine for broader economic growth, prosperity, and stability.

RATE collects certain quantitative and qualitative information across relevant agriculture value chains in ten topical areas critical to trade in agricultural products sector, namely (1) the conditions for enterprise formality; (2) access to finance; (3) infrastructure; (4) intellectual property; (5) competition; (6) non-tariff barriers; (7) trade facilitation; (8) gender; (9) transparency and accountability; and (10) food security. Each RATE country assessment, set forth in a separate detailed, country-specific presentation and reported through a series of Country Summaries, benchmarks the national enabling environment for agribusiness and agricultural trade by identifying the private sector priorities, key market constraints, and successful national initiatives in support of agricultural trade in individual ASEAN Member States.



## INTRODUCTION

The Lao People's Democratic Republic ("Lao PDR" or "Laos") is one of the smallest Association of Southeast Asian Nations (ASEAN) Member States in terms of population, three-quarters of which works in agriculture, mostly at a subsistence level. Laos is the only ASEAN Member State that is landlocked. It is the newest member of the WTO, becoming a member in February 2013. Though one of the poorest and least populated countries in Asia, Laos has the potential to play an important role in meeting ASEAN's food security and trade objectives, positioned, as it is, at the heart of the region. With more integrated regional trade, Lao farmers will benefit from lower-cost inputs from other member states. For their part, consumers will pay less for food in a more competitive environment, and growers and processors will increasingly prosper with better access to regional markets and an improved business enabling environment.

As of 2013, the Lao government's policy focus as it relates to trade in agricultural products is mainly on family farm sustainability, poverty reduction, and improved efficiency of value chains that, in its view, are important to food security. Policy reform and public investments have contributed to robust agricultural sector growth—around 4.7 percent annually in recent years, according to the World Bank. Some government attention is paid to larger, growth-oriented enterprises, but assistance is sometimes ad hoc, and the government's targets are often changeable and disconnected from some private sector participants' views of their own support and regulatory needs.

The formidable efforts that prepared Laos for its WTO accession both highlighted major gaps in the country's regulatory and institutional framework, and laid the foundation for rapid progress in filling those gaps. New laws and regulatory frameworks for the legislative process, intellectual property protection, and a host of trade-oriented essentials have brought Laos a long way toward modernizing its trade enabling environment.

**Figure 1. Representative Statistics Pertaining to Agricultural Trade: Laos**

Population (2013)	6.7 mn
Agriculture as % of GDP (2012)	26
Services as % of GDP (2012)	40
Industry as % of GDP (2012)	34
% of population engaged in agriculture (2010)	75.1
Exports (all sectors, 2012)	\$1.98 bn
Imports (all sectors, 2012)	\$2.74 bn
% of women participating in agriculture sector (2011)	81
Female/Male literacy rate (%) (2005)	63.2/82.5
Female labor participation rate (women over 15, 2011)	77
Prevalence of under-nourishment (2011) (% of population)	28
Percent of children underweight (2006, % of children under 5)	31.6
% of workers informally self-employed or informal wage-earners	Not available

SOURCES: CIA Factbook; World Bank;

## TOPICAL SUMMARIES

For each ASEAN Member State surveyed by RATE, assessors asked approximately 150 questions—around 15 per topic—related to the legal framework, implementing institutions, supporting institutions, and social dynamics of each of the ten topics studied by the assessment. This section summarizes the answers to these questions by setting forth the primary issues, opportunities, and challenges associated with each topic.

### The Informal Economy

Throughout Southeast Asia, recent generations have witnessed a transition from economies grounded in informal activity—mostly agriculture and casual trade—to more formal and clearly defined relationships between enterprises and the regulating authority of government.

Formalization begins with registration of an enterprise with one or more government agencies, and can result, in theory, in a number of advantages, among them limited liability, better access to finance, more opportunities to participate in higher-value pursuits, greater ability to enforce contracts, and even the benefits of a strengthened community tax base. For many informal producers, processors, and traders, however, registration with national or local authorities often means assuming the costs of formal tax

When producers, processors, and traders assume the various aspects of enterprise formality, their businesses can grow and their goods can circulate more freely, within and across borders, enhancing food security.

collection and licensing interventions, without immediate or obvious tangible benefits. Enterprises typically remain informal because they perceive formalization as too costly, too complex, and not worth the effort. As long documented by the World Bank’s *Doing Business* initiative, however, persistent, widespread enterprise informality undermines improvements to productivity and quality, access to markets, and economic growth.<sup>1</sup>

**STEPS TO STARTING AN AGRIBUSINESS IN CHAMPASSAK PROVINCE**

- Feasibility study and business application
- Provincial Agriculture Division meets with other public sector departments to discuss viability and whether the business will comport with provincial goals
- Site inspection to determine impact
- Agriculture Division meets again to decide whether the business can proceed
- If the answer is yes, corroboration is sought from other agencies
- A public sector agriculture specialist is assigned to work with the business
- Agriculture Division and business owner meet once a year to improve the business and to align it with provincial development goals

With so many subsistence farmers, the vast majority of the agricultural sector in Laos is informal. The central government estimates that at least 100,000 tons of agricultural goods are traded informally across Lao’s borders with China, Thailand, Cambodia, and Vietnam each year. This represents a significant level of trade that the government cannot track and for which it cannot collect taxes. The Ministry of Agriculture believes the solution lies, partly, in better coordination among relevant ministries, such as Agriculture and Trade, which, it says, would allow the government to take a unified approach to trade in the kinds of products small farmers grow and process. The Ministry maintains,

<sup>1</sup> See World Bank, *Doing Business in 2013* (2012), and accompanying literature at [www.DoingBusiness.org](http://www.DoingBusiness.org).

likely correctly, that few countries in the world have as large a portion of the informal economy trading across borders.

For its part, the government openly holds the view that now is not the time to push formalization. It typically does not condition its assistance or extension services on whether an enterprise is formally registered. In fact, a number of businesses that started many years ago with government assistance have either only recently formalized or not done so yet. Nonetheless, most informal enterprises interviewed during the RATE assessment claimed to receive government advisory services and support.

Laos' Law on Enterprises (2005) and Law on Agriculture (1998) generally support private enterprise. One goal of the 2020 Strategy developed by the Ministry of Agriculture and Forestry (MAF) is that "increased and modernized production of agricultural commodities will lead to pro-poor and green value chains, targeting domestic, regional and global markets, based on organizations of smallholder farmers and partnering investments with the private sector." The strategy also calls for the active involvement of the private sector (mainly represented by large regional agro-food conglomerates) in the dissemination of improved inputs and techniques. Finally, it states that MAF regards itself as the regulator of the agricultural private sector and facilitator of new service providers to farmers.



***The informal economy may be comprised of microbusinesses, but it has a voice. This family discusses its issues with the local government.***

In practice, and partially due to Laos' communist heritage, formalizing or starting a business can be a long and difficult journey with so much government involvement that the entity that emerges actually becomes more of a government-private sector hybrid. Regulations at the provincial and district levels function as obstacles to business development. Intended to allow the government a role in shaping the

success of a business, the process simply adds burdens, time, and expense to what could be a much simpler start-up process.

Unregistered foreign investment is also a problem in Laos, particularly in agricultural trade. Traders, often foreigners traveling to Laos on short-term visas, provide farmers with inputs and cash, and tell them what to grow. They return later for the harvest. While this type of contract farming provides farmers with new market opportunities, these traders may lack accountability. Stories suggest that farmers are sometimes cheated and that buyers sometimes provide and insist that farmers use illegal (unsafe) inputs in a context where there is no recourse to formal dispute resolution.

## Access to Finance

Producers, processors, and traders seek finance for a variety of purposes: for operations; to bridge the gap between production of goods and receipt of payment for them; for capital purchases, farming equipment, or storage facilities; to cover swings in supply and demand conditions; or to launch a processing enterprise.<sup>2</sup> In many instances, they are disappointed. The risks involved in lending are often too great for banks and other lenders to assume. These include ambiguous and highly disputed land rights, weak property registration systems, limited forms of collateral, inadequate financial infrastructure, and the particular risks faced in agriculture, such as seasonality and geographic clustering of risk. The risks may also include a weak appreciation of how credit works among those who seek to borrow.

A variety of safe and accessible opportunities to access finance helps producers, processors, and traders cope with supply and demand risks, strengthen their enterprises, and contribute to food market stability.

In Laos, very few farmers seek formal credit, partly because of a lack of a tradition of borrowing, as well as because of the scarcity of lending by banks. Farmers typically turn to the informal market—often traders—for loans at very high interest rates. One new lending scheme intends to bring small loans to more poor farmers. Using a system of “group responsibility,” the Bank for Agriculture Promotion lends to small groups of farmers without collateral. The amounts are very small (up to about 10 million kip—or about US\$1,260—per person). The terms often do not match the realities of agriculture and each farmer is individually responsible for the debts of the others, making the loan quite risky. Some farmer groups borrow this way, but most find the system inadequate and still turn to the informal system. Loans are also usually specific to agriculture, rather than other needs like enterprises or housing. Farmers complain that loan officers are not familiar with the agricultural sector and do not understand farmers’ needs and constraints.

In 2004, Laos created a Microfinance Division, which was later converted into the Department of Financial Institution Supervision of the Bank of the Lao PDR (BOL) —the central bank in Laos—in 2010. In 2008, the BOL issued a regulation stipulating that any organization, group, or enterprise—governmental, nongovernmental, or private—that carries out microfinance activities, including village banks, savings groups, village funds, development funds, and others, must register and become licensed

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<sup>2</sup> See USAID/Enabling Agricultural Trade, Agribusiness Commercial Legal and Institutional Reform project, *Lessons from the Field: Getting Credit* (2011).

as a “prudentially regulated microfinance institution” (MFI). This requirement has not been enforced, however, to any significant degree. In addition, the BOL set a ceiling on the size of microloans of 10 million kip, although it does not impose interest rate restrictions. According to the World Bank, the formal community of MFIs consists of eight deposit-taking institutions; 13 savings and credit unions; 10 nondeposit-taking MFIs; one “post” bank, and two co-ops.<sup>3</sup> This group of MFIs has reportedly served a total of 82,000 customers (1.3 percent of the total population). Even though the MFIs have doubled their asset size over the past two years, their share of overall banking assets as of June 2011 was reportedly less than 1 percent.

Laos has not joined many of its ASEAN cohorts in establishing and refining two key institutions associated with promoting better access to finance—a collateral registry and a credit bureau. In 2005, Laos enacted a Law on Secured Transactions, replacing a law enacted in 1994. The law provides that lenders may secure their loans with both immovable and moveable property—that is, not only land may serve as collateral, but also such assets as equipment, vehicles, inventory, and livestock. Pursuant to that law, security contracts have legal effect once they are registered with the Finance Ministry. This approach has not yet been implemented because a collateral registry has not yet been established in the Ministry. According to one detailed analysis, the law falls well short of international best practice in secured lending.<sup>4</sup> Its weaknesses are evident in the country’s poor showing in the World Bank’s annual *Doing Business in 2013* survey, which ranks the country 167 out of 185 countries on the topic of getting credit.

Credit bureaus or other credit information facilities are not mentioned in the banking law, and do not exist in Laos’ private sector. Banks collect their own information on debtors, but often do not share it. Some banks are beginning to discuss teaming up to establish a private sector credit information system, but will find doing so difficult under the current law which prohibits sharing of private information.

## Infrastructure

A nation’s success in agricultural trade, whether domestically or in regional or international markets, is generally only as good as the ability of its producers to get their products to the next stop on the value chain—that is, to local markets, distributors, and processors, as well as to storage facilities, warehouses, and ports. Producers and processors also need access to inputs that are transported over long distances, including seed, feed, fertilizer, and equipment. To support commerce that extends beyond the farm gate, governments must invest in and maintain a supporting infrastructure that incorporates transport, water, power supplies, and telecommunications.

Strong markets for agricultural products need public facilities that support production, processing, and trade, such as roads, rail, ports, wholesale markets, storage facilities, and access to communications and information.

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<sup>3</sup> World Bank Lao PDR Economic Monitor, May 2012 Update.

<sup>4</sup> See USAID/Southeast Asia Commercial Legal and Institutional Reform (SEACLIR) – Laos (Secured Transactions Law chapter, 2006).



**Women on their way to market. Transportation options are often limited and expensive for farmers and rural traders.**

Laos' infrastructure is indicative of its being a least developed country with a relatively small population and difficult terrain. Main roads in the countryside are often impassable, relatively short distances become day-long journeys, and there are no railways. Farmers feel that they are rarely consulted on infrastructure projects that do get started. On the positive side, the Mekong River is a major trade thoroughfare, provincial airports have seen recent upgrades or plans for upgrades, and efforts are underway to link China, Laos, and Thailand by rail. The initial rail plan, however, has hit a number of difficulties. After lengthy disagreements over the land concessions to be granted to China in exchange for building the North-South rail link, Laos has delayed the project and will attempt to fund it through loans.

Approaches to infrastructure in Laos vary by province, unlike in other small developing countries where infrastructure development is usually directed by the central government. In Champassak Province, roads and other hard infrastructure are a clear focus. In Luang Prabang Province the focus is now on what the Director General of the

Agriculture Department calls "soft infrastructure." Currently, 95 percent of infrastructure funds go to roads and other hard infrastructure, but the province will be redirecting funds to capacity building, primarily in the form of extension services. One example of new extension targets is poultry management techniques.

Under the country's Agriculture Law, the state aims to promote the development of irrigation at many levels and scales. Administrative authorities have the duty to encourage and mobilize the building of irrigation systems through individual or collective capital, joint investment by the state and people, or investment by the state on its own. For large-scale and technologically sophisticated irrigation, the state may participate in management of the irrigation system. If the people need a road or electricity connection, they must request permission according to the steps laid out in the laws on water and water resources, land, and/or electricity.

Indeed, irrigation is a problem often discussed in Laos. Because of poor management and weak enforcement of water rationing, many farmers living near the end of the canals do not receive any irrigation water at all. Local officials complain that they lack the staff needed to enforce water use, and

that many farmers cheat by appearing to use pipes of the allowed diameter, but surreptitiously tunneling larger channels.

### Intellectual Property Rights

Intellectual property is increasingly viewed as a key factor in development. IP is a branch of law that protects intangible property such as inventions, new plant varieties, geographical indications, and trademarks and protects against dishonest business practices. An effective IP system makes markets more predictable and reduces investment risk. This benefits local producers and better positions a country to attract foreign investment, as international investors give substantial weight to IP protection in their decisions on where to locate their business investments.

Investment in a vibrant food economy is enhanced by systems supporting the recognition and protection of new plant varieties, and of patents, trademarks, and copyrights used in connection with equipment, products, and services.

In acceding to the WTO, Laos developed a comprehensive IP law that addresses all required areas, including enforcement and which is supplemented by a Customs Instruction. This law replaced an earlier law that was itself a significant improvement but fell short of WTO requirements. The Lao Government

sought input from WTO members before finalizing the new law and a series of implementing decisions and achieved a modern, comprehensive IP law that allowed it to join the Berne Convention in 2012 and become a WTO member in February 2013.



***A worker stamps trademarks on fresh eggs.***

The concept of geographical indications is new in Laos but is of particular interest to government officials seeking to generate interest in the country's unique products. With French support, there has been a focus in recent years on developing a legal and institutional foundation for the designation and enforcement of geographical indications for such products as coffee and green tea from Paksong, silk from Pa Eum, purple rice from the north of Laos, and algae from Luang Prabang.

USAID's LUNA Lao project has worked with the Ministry of Science and Technology to strengthen the regulatory and enforcement framework both before and after WTO accession. Although the legal basis for IP enforcement is now in place, significant effort will be needed to make those mechanisms fully effective.

## Competition

Competition is at the heart of any successful market economy. True competition promotes economic efficiency, consumer choice and welfare, and overall economic growth and development. Competition forces companies to work as efficiently as possible and offer the most attractive array of price and quality options in response to consumer demand, rather than conspiring as cartels to fix prices or to block other companies' entry into the market.

In Laos, free-market principles are widely encouraged but poorly understood by government, and are rarely allowed to develop unfettered. The Lao Constitution encourages competition, and a Competition Decree (2004) prohibits anticompetitive behavior. The government appears to view competition policy not as currently relevant, but as a tool that will be needed in the future, after the private sector has reached a degree of sophistication that could allow it to distort the market. For now, the government is more interested in priming growth by giving advantages to larger players and, of course, by taking advantage of its own privileged position in the market.

Competition compels producers, processors, and traders to be more efficient and innovative and to offer the most attractive array of price and quality options in response to consumer demand.

Traditional competition policy, especially as it was developed for Laos' WTO accession, is also largely irrelevant to the kind of agriculture practiced by more than 80 percent of the Lao people. For them, competition is not something that needs to be protected, but rather a concept that needs to be ignited and encouraged. One foreign lawyer noted that the Lao government distorts competition at the lower levels of the agriculture value chain both by commission and omission, but few in the private sector understand the problem. Field visits suggested otherwise; farmers and small processors frequently complain about unfair government concession of market space (there were some stories of foreign Chinese traders being sold concessions in the markets) and that the government turns a blind eye to the wildly anticompetitive practices of traders who are said to fix territory and price.

## Nontariff Barriers

Although the formal definition of what constitutes a nontariff barrier (NTB) varies according to the source, NTBs are generally viewed as government-imposed or government-sponsored measures—other than tariffs—that are used to protect a domestic industry from international competition. A great many measures can be interpreted as an NTB, ranging from restrictions on food imports due to food safety considerations, to business licensing requirements that are especially difficult for outsiders to fulfill, to outright quotas. For the purposes of agricultural trade, NTBs may include import restrictions on inputs, sanitary and phytosanitary (SPS) regulations, animal and plant health standards, food safety standards, business licensing procedures, labeling and packaging requirements, and constraints on trade in services. Some of these are sanctioned by the world trade community through agreements, while others can be challenged by trade partners as restrictive of trade.

Markets function more efficiently when trade is managed through transparent tariffs and legitimate health and safety measures, rather than via more opaque quotas, licenses, and other barriers.

The Lao government has acknowledged the importance of comprehensive food safety laws and regulations for both protecting domestic consumers and increasing international trade, and has appointed the Ministry of Health to take the lead in developing a national policy and plan of action for food safety. While there are food safety laws in place, the Ministry of Health is revising them and developing the implementation policies and regulations on food safety, as of September 2013. In addition, the Ministry of Agriculture and Forestry's Department of Animal Health and Veterinary is updating Lao's animal health legislation; these updates are essential to improve the implementation of SPS requirements and to facilitate trade. As a new member of the WTO, Laos is working to ensure that its legislation is compliant with ASEAN, WTO, and Codex Alimentarius requirements and best practice. As Lao becomes a growing exporter of food, Lao government officials at both the national and provincial levels will need to become more knowledgeable about international SPS regulations and food standards in order to support new and expanding exporters.



***Families load cabbages on trucks bound for sale in Thailand. Informal fees to cross the Mekong River bridge at Pakse can cost families approximately 1 percent of their profits, a significant financial burden for agricultural families.***

Barriers to commerce account for a relatively small percentage of the overall cost of production, but they often make the difference between a competitive business and one that fails because it cannot reduce costs. In Laos, where profits are very low on agriculture products to begin with, and every kip is essential to family income, small fees here and there add up to a significant burden on growth and competitiveness. As is common throughout the developing world, governments often turn to taxing trade as the most reliable source of local revenue. And, since the great bulk of trade is conducted at the very small, even micro, level, public sector officials may find it even easier to assess informal fees. A fee, charged by the provincial government, usually around 1 percent of the cost, on all imported inputs is an example of these NTBs. There is no stated government plan to promote domestic input industries, and thus little rationale beyond taking advantage of a revenue opportunity for these fees.

An example of the relative burdens borne by small farmers can be seen every hundred meters or so along a 20 km stretch of highway close to Paksong, in Champassak Province. During harvest time, cabbage-farming families can be seen loading their produce onto five-ton trucks to deliver to buyers and buyers' agents at the Thai border beyond the Mekong River. They work as quickly as they can, but often not quickly enough to make it to Pakse before the Mekong River Bridge is closed for the evening to truck traffic. If the trucks are there later than 6:30 PM, they can get across, but only after paying an informal fee to the police. Even local officials say that the rule has no reasonable basis, and that the regulation is likely another way to extract rents. These same farmers are also subject to occasional tolls charged by districts, and the 15 kip per kilogram export tax. At more than 8,000 kip to the U.S. Dollar, 15 kip seems a small fee to pay; but, it adds up to more than US\$9 on a single truckload of cabbage—nearly 1 percent of the estimated annual per capita income in the province.

### Trade Facilitation

Prudent and effective international trade facilitation requires the provision of high-quality, transparent government services at the border, including predictable and consistent procedures by customs agencies, health and agriculture inspectors, immigration agencies, and others. Governments throughout the world increasingly recognize that capable and responsible trade-related operations, including fast and efficient clearance processes at the border, are a prerequisite for development. Due to their greater perishability, foods in particular require efficient trade regimes and border crossings. Food security is enhanced when cross-border flows of products are “facilitated” to minimize time spent by food-related cargo in trade, thus reducing both physical losses and costs.

The volume and efficiency of markets improve when procedures and controls governing the movement of goods across borders are transparent, accessible, and consistently administered by customs agencies and other key border agencies, including port authorities, health agencies, quarantine services, and immigration.

Laos' Customs Law is relatively new (2005), and the country receives a significant amount of attention from donors for customs capacity-building, development of a national single window, and participation in the ASEAN Single Window framework. Still, Laos continues to perform very poorly in the annual World Bank *Doing Business* survey—ranking 160 out of 185 countries measured in 2013 for Trading across Borders. The time and documents needed to export and import have decreased in the past few years, but Laos continues to be plagued by inefficiency, corruption, and provincial meddling at the borders. Nonetheless, the private sector draws little attention to the problem, partly out of concern that complaints will invite Customs to retaliate by increasing burdens, but mostly because there is so little trade that few notice the problem.

### Gender

As underscored by USAID's 2012 Gender Equality Policy, gender equality and female empowerment are “fundamental to the realization of human rights and key to effective and sustainable development outcomes. Although many gender gaps have narrowed over the past two decades, substantial inequalities remain across every development priority worldwide—from political participation to economic inclusion—and remain a

Strengthening educational and economic opportunities for women can lead to more robust and equitable economic growth.

significant challenge across all sectors in which USAID works, particularly in low-income and conflict-affected countries and among disadvantaged groups.”



**Women are typically the main market traders.**

The line between government and the private sector in Laos is not clear. Government runs numerous businesses and the private sector relies very heavily on government direction and business advice. Civil society organizations tend to function as part of the public sector but with private sector membership. It may seem strange, then, that women are strongly present in the private sector and in academia, but nearly absent from executive positions in government.

In the private sector, the engagement of women is very encouraging. One of the largest privately held companies in Laos, Dao, which produces coffee, tea and dried fruit, was founded and is led by a woman. It is now diversifying its holdings into hotels and retail shops. Another woman, in Luang Prabang, along with her son, established a branded collection of chili products that has become so popular that they are now building a shop to appeal to tourists. Women interviewed did most of the talking about family farms, were more critical than their husbands of the enabling environment, and seemed less reluctant to present problems to the government.

The state-run Lao Women’s Union has a mandate to respond to women’s development needs, and is supported by UNIFEM. Few women outside of the capital, however, have heard of the organization or have participated in it. Villages typically have “women’s groups,” though their function appears to be only to organize the periodic collective Labor Day and to organize pooling of resources for village events. Nonetheless, they appear to be good starting points for further efforts to organize groups of women. Private sector-oriented women’s groups are beginning to take hold, thanks mainly to support from donors. In Champassak Province, for example, a group of women (wives of coffee farmers) pooled resources and, with help from the Agence Francaise de Developpment, started a coffee washing and drying collection center. It is said to be the only group of its kind in Laos, but its success has attracted attention.

## Transparency and Accountability

When discussed in terms of governance, the term “transparency” pertains to the free and full availability of information critical to the public. “Accountability” refers to the authority that citizens confer to those they elect to govern on their behalf, such that it is always limited, provisional, temporary, and subject to recall through regular elections or other arrangements. In the absence of transparency and accountability, corruption ensues. In the popular definition long espoused by Transparency International (TI), corruption is “the abuse of entrusted power for private gain.” As TI has long maintained, corruption hurts everyone who depends on the integrity of people in a position of authority. Thus, issues of transparency, accountability, and corruption are relevant in all sectors of an economy, including in public and private institutions involved in the agriculture sector.

Transparency and accountability in all aspects of agricultural trade—including production, processing and trade—facilitate increases in regional and international cooperation and trade.

Recent progress has been made in making Laos’ laws and decrees accessible to the public, with the new Law on Legislation clearly setting forth requirements for publication. The importance of this change is worth underscoring. A 2006 USAID-sponsored legal and institutional analysis concluded that the lack of access to laws and decrees, even among government officials themselves, constituted an enormous disadvantage to people trying to run state agencies and do business in the country.<sup>5</sup> New transparency requirements are also set forth in the new Law on Intellectual Property.

Notwithstanding this progress, most law in Laos is established through decree without public consultation. The private sector remains unlikely to have a clear view of most rules. Further, although the law may mandate transparency, low capacity and a poor appreciation of the need for transparency restrict it in practice at the institutional level.

Often in Laos, provinces brazenly undertake trade law, typically an exclusive function of national government. Champassak Province, for example, boasts of having negotiated 58 trade agreements with Thailand. But finding copies of these, or even references, is impossible. This makes not only trade, but also the development of a coherent national trade policy, very difficult. Companies trading with Thailand, for example, from one border province are very likely to have a different relationship with the Thai government than those trading from another province.

### COFFEE, TOURISM, AND GROWTH

Entrepreneurs are quick to see that that general expansion in trade will result in a positive impact on economic growth and food demand. Mr. Sinouk Sisombat, owner of coffee plantations, restaurants, and hotels, enthusiastically promotes links between agriculture and tourism as a way for the Lao people to develop as entrepreneurs, capitalize on regional growth opportunities, and start an engine of prosperity that will benefit the entire

Land presents another major accountability issue. Two related problems are said to be at the core of land use uncertainty. Though all land is technically public, domestic property is protected by the Constitution as long as it does not conflict with public interests. Agricultural land, however, is allocated by government to villages, private households, and investors by concession and joint

<sup>5</sup> See USAID/Southeast Asia Commercial Legal and Institutional Reform (SEACLIR)—Laos (2006).

venture leaseholds. Many stakeholders complain, however, that the government has been overly aggressive and inconsistent in its concession policy, granting rights to large plots of land for investment crops such as rubber while ignoring prior rights of villages already farming the land.

A related concern is that farmers with traditional rights in land are reluctant to invest in longer term crops (such as fruit trees) because others will later challenge the land rights. At this writing, the government has frozen all land concessions for mining and rubber plantations until 2015.

In 2005, Laos enacted an anticorruption law that identifies taking bribes as an act of corruption. Other laws have provisions on the abuse or misuse of power by government; for example, the new Customs Law (2005) and new Taxation Law (2005) contain anticorruption provisions. Also, in 2009 Laos ratified the UN Convention against Corruption. Two anticorruption bodies exist: the State Audit Organization (1998), which reports to the Minister of Finance, and the State Inspection Authority (2001), which reports to the Prime Minister. A State Audit Organization is not independent of either the government or the party: any action in response to its reports requires a political decision.

Unfortunately, none of these measures has had much effect on the prevalence or level of corruption in Laos. In 2007–2008, only 25 people were prosecuted for minor offenses such as smuggling timber and soliciting bribes for issuing identification papers. No senior officials were prosecuted. Ultimately, no business, large or small, can escape the near-mandatory practice of paying government officials to provide public services. In Transparency International's 2012 Corruption Perceptions Index, Laos ranked the lowest among all the ASEAN Member States—160<sup>h</sup> out of 176 countries.

## Food Security

Rich in land and water, Laos has enjoyed comparative food security. However, as a least developed country with a low GDP around \$1,300, risk of food crisis always looms. In addition, Laos' ability to develop an independent food security policy is hampered by proximity to China, which sees Laos as a market and a source of production. Laos' food security objectives are to reach levels of per capita income and meat and vegetable consumption that would compare favorably with the ASEAN region as a whole by 2015. The question is whether Laos can reach these targets given constraints in its enabling environment.

Food security exists when all people, at all times, have physical and economic access to sufficient, safe, and nutritious food to meet food preferences and dietary needs for active and healthy lives.

Central policy favors higher productivity, lower cost, greater investment in large-scale farming and input operations, and increased exports. Policymakers generally recognize the need for a small, landlocked country to engage fully in international trade, confirmed by central policy and the country's optimistic engagement in ASEAN and WTO accession. But policy rarely appears to match practice, and policy generally favors a version of food self-sufficiency over the long-term goal of growth through trade. This is especially true at the provincial level where government exercises extensive regulatory authority over agriculture and trade, and even makes trade deals with neighboring countries, and is generally resistant to letting market forces freely allocate supplies to meet demand. Under-staffing, lack of expertise, and opportunistic behavior by officials at the provincial level further undermines the implementation of favorable stated policies such as increased inexpensive imports of agricultural inputs. Widespread introduction of high-yield rice seed has dramatically increased income in some areas. There is some confusion by cooperatives and other partners

on whether the rice seed being used to drive these yield increases is "hybrid" or "GMO". However, although Laos recently passed a Biotechnology Safety Law (on December 18, 2013), technical regulations are not yet in place to review the feed and food safety of products derived from biotechnology for their official commercial release in the country.

## CONCLUSION

Laos' impressive growth over the past few years illustrates the perseverance of Lao farmers and entrepreneurs, as well as the dedication of the Lao government to priming a very eager private sector. Given its size and capabilities in agriculture, Laos is poised to become an important net contributor to regional food security, and even a trailblazer in sustainable and responsible agricultural practices. Recent improvements in the trade regulatory environment, prompted by Laos' enthusiastic bid for WTO accession, will undoubtedly have a positive effect on trade efficiency and, ultimately, growth. Nonetheless, transition to an economy that can play meaningful role in the regional market place will demand pragmatism on the part of government, less reliance on convenient revenue streams, and more faith in entrepreneurs' ability to decide what they need.